

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-08 ISO-00 EA-06 SS-14 EB-04 NSC-05
SP-02 L-01 OMB-01 DOE-01 SOE-01 INR-05 CIAE-00
DODE-00 NSAE-00 /049 W
-----048289 251327Z /47

R 251201Z APR 78
FM AMEMBASSY VIENNA
TO SECSTATE WASHDC 6098

C O N F I D E N T I A L VIENNA 03841

PASS TREASURY UNDER SECRETARY SOLOMON FROM BERGSTEN

LIMDIS

E.O. 11652: GDS
TAGS: EFIN
SUBJECT: U.S. - JAPAN BILATERAL

1. IN BILATERAL TALKS WITH MOF VICE MINISTER MATSUKAWA AND BANK OF JAPAN EXECUTIVE DIRECTOR HAYAMI, ASSISTANT SECRETARY BERGSTEN PRESENTED PAPER OUTLINING PROPOSAL FOR IMPROVED COMMUNICATIONS ON EXCHANGE MARKETS BETWEEN BANK OF JAPAN AND FEDERAL RESERVE OF NEW YORK.

2. MATSUKAWA WAS HIGHLY APPRECIATIVE. HE WILL CONSULT TOKYO AND PROVIDE FORMAL REACTIONS TO UNDER SECRETARY SOLOMON IN MEXICO. ONLY SUBSTANTIVE COMMENT WAS THAT JAPAN WOULD PREFER CONVERSATIONS TAKE PLACE AT 8:30 A.M. JAPAN TIME.

3. MATSUKAWA REITERATED HOPE THAT THE PRESIDENT AND PRIME MINISTER COULD MAKE APPROPRIATE ANNOUNCEMENT AT TIME OF PRIME MINISTER'S VISIT IN WASHINGTON. HE THEREFORE STRESSED NEED AVOID ANY PREMATURE PUBLICITY CONCERNING PROPOSED NEW ARRANGEMENT.

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4. HAYAMI POINTED OUT THAT QUOTE BACKGROUND UNQUOTE PART OF PAPER ERRONEOUSLY REFERS TO BANK OF TOKYO INSTEAD OF BANK OF JAPAN. BANK OF JAPAN COMMUNICATES WITH NEW YORK FED VIA TELEX ARRANGEMENTS WITH ITS OWN OFFICE IN NEW YORK THERE IS NO INVOLVEMENT BANK OF TOKYO.

5. CONVERSATION TURNED TO GROWTH AND CURRENT ACCOUNT OUT-LOOK FOR JAPANESE ECONOMY. MATSUKAWA FELT THAT 7 PERCENT GROWTH TARGET WAS QUOTE NOT OUT OF QUESTION UNQUOTE MOSTLY ON GROUNDS THAT REAL GROWTH OF BOTH PRIVATE INVESTMENT AND PRIVATE CONSUMPTION IS RISING RAPIDLY. HE WAS MUCH LESS OPTIMISTIC ABOUT B/P TARGETS. HAYAMI EXPLAINED IN SOME DETAIL NEW JAPANESE PROGRAM OF IMPORT FINANCE.

6. BOTH MATSUKAWA AND HAYAMI THOUGHT THE VERY STRONG APPRECIATION OF THE YEN IN MARCH WAS DUE TO EXCEPTIONAL FACTORS. EXPORTS EXPANDED RAPIDLY BEFORE THE END OF THE JAPANESE FISCAL YEAR DUE TO FEARS OF SOME KIND OF EXPORT CONTROLS TO BE BASED ON DATA FOR THAT FISCAL YEAR. END-OF-YEAR WINDOW DRESSING LED TO CAPITAL INFLOWS BY JAPANESE BANKS. IN ADDITION, EURODOLLAR INTEREST RATE COMBINED WITH FORWARD YEN QUOTATION, PRODUCED PROFIT ON FREE YEN DEPOSITS DESPITE ZERO INTEREST RATE. DEPRECIATION OF YEN DURING LAST FEW DAYS WAS ATTRIBUTED TO UNWINDING OF THESE FACTORS PLUS APPRECIATION IN JAPAN OF PRESIDENT'S COMMITMENT TO ANTI-INFLATION AND ENERGY POLICY. MATSUKAWA AND HAYAMI HOPED AND BELIEVED THAT YEN/DOLLAR RATE WILL STABILIZE IN 220-230 RANGE FOR FORESEEABLE FUTURE.

7. BERGSTEN EMPHASIZED THROUGHOUT MEETING IMPORTANCE OF JAPAN MOVING TO REACH GROWTH AND CURRENT ACCOUNT TARGETS. HE EXPLAINED IN SOME DETAIL PRESIDENT'S ANTI-INFLATION
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PROGRAM, COMMITMENT TO REDUCE ENERGY IMPORTS THROUGH ADMINISTRATIVE MEASURES IF CONGRESS WOULD FAIL TO ACT, AND EFFORT TO PROMOTE U.S. EXPORTS.

8. LASTLY, BERGSTEN RAISED QUESTION OF JAPAN TAKING OVER EXPORT-IMPORT BANK FINANCING OF COTTON SALES TO JAPAN. MATSUKAWA PROMISED TO LOOK INTO QUESTION AND SEND ANSWER TO BERGSTEN VIA JAPANESE EMBASSY IN WASHINGTON. BORG

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC COOPERATION, MARKETS, DIPLOMATIC DISCUSSIONS, FOREIGN EXCHANGE, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 25 apr 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978VIENNA03841
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780176-0481
Format: TEL
From: VIENNA
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780418/aaaaaoooc.tel
Line Count: 102
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: fb5cbca7-c288-dd11-92da-001cc4696bcc
Office: ACTION TRSE
Original Classification: CONFIDENTIAL
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: ONLY
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 18 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2850250
Secure: OPEN
Status: NATIVE
Subject: U.S. - JAPAN BILATERAL
TAGS: EFIN, US, JA
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/fb5cbca7-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014